

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED  
FOR MEDICARE REIMBURSEMENT BY  
WELLMARK, INC.**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**FEBRUARY 2003  
A-07-02-03029**

# ***Office of Inspector General***

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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.





Report Number: A-07-02-03029  
February 21, 2003

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

Mr. Thomas W. Pfeifler, CPA, CMA, HIA, CIA  
Manager, Audit Services  
Wellmark, Inc.  
636 Grand Avenue  
Des Moines, Iowa 50309-2565

Dear Mr. Pfeifler:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Wellmark, Inc.*

We determined that Wellmark should remit unallowable pension costs of \$547,053 to the Federal Government. Wellmark disagreed with our report, noting that a previous payment in the amount of \$11,369 was not reflected in the draft report. Additionally, Wellmark stated that the application of prior unclaimed administrative costs (approximately \$1.8 million) offsets our recommendation to remit unallowable pension costs to the Federal Government. Wellmark's response is included as Appendix B.

## EXECUTIVE SUMMARY

### OBJECTIVE

The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FYs) 1992 through 2000.

### FINDING

For FYs 1992 through 2000, we determined that Wellmark, Inc. (Wellmark) over claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$2,726,878. However, Wellmark claimed pension costs of \$3,273,931 for Medicare reimbursement. As a result, Wellmark over claimed allowable pension costs by \$547,053. This over claim of pension costs was the result of Wellmark not basing their pension claims on separately calculated pension costs for the Medicare segment.

### RECOMMENDATION

We recommend that Wellmark remit \$547,053 to the Federal Government for unallowable pension costs that were claimed for Medicare reimbursement.

## **BACKGROUND**

### ***Medicare***

Wellmark administered Medicare Part A and Part B operations under cost reimbursement contracts until contractual relationships were terminated effective May 31, 2000 and October 31, 1998, respectively. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability. The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

### ***Wellmark***

Wellmark sold the Medicare segment of their business to Blue Cross Blue Shield of Alabama (Cahaba) effective May 31, 2000. The majority of Wellmark's Medicare segment employees transferred to Cahaba or terminated their employment; the Medicare segment was closed on that date. In addition, all liabilities were transferred, as well as the assets identified by Wellmark, with the Wellmark Medicare segment employees that went to Cahaba.

Wellmark participates in the National Retirement Program administered by the National Employee Benefit Association (NEBA).

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### ***Objective***

The objective of our review was to determine the allowability of pension costs claimed for FYs 1992 through 2000.

***Scope***

This review was done in conjunction with our review of Wellmark's pension segmentation closing (Report Number: A-07-02-03022). The information obtained and reviewed during that audit was also used in performing this review.

We identified Wellmark's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Wellmark funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1992 through 2000. Appendix A contains the details on the pension costs and contributions. Achieving the objective did not require a review of Wellmark's internal control structure.

***Methodology***

We made our examination in accordance with generally accepted government auditing standards. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Wellmark's historical practices. We performed site work at Wellmark's corporate office in Des Moines, Iowa during February of 2002. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

**FINDINGS IN DETAIL**

For FYs 1992 through 2000, Wellmark over claimed \$547,053 in pension costs that are not allowable for Medicare reimbursement. The pension costs are unallowable because the costs claimed exceeded the funded portion of CAS computed costs. The over claim primarily occurred because Wellmark did not base their pension claims on separately calculated pension costs for the Medicare segment.

**CRITERIA**

The determination and allocation of pension costs are addressed by the Medicare contract which states:

*“The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”*

**CONDITION**

For FYs 1992 through 2000, Wellmark charged \$3,273,931 of pension costs to Medicare. However, the allowable CAS pension costs were \$2,726,878 for the same period. Therefore, Wellmark over claimed \$547,053 in pension costs.

## CAUSE

The primary cause for the over claim was due to Wellmark not basing their pension claims on separately calculated pension costs for the Medicare segment.

We calculated the allowable CAS pension costs for the Medicare segment and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. See Appendix A for details.

We compared our calculated allowable CAS pension costs to the pension costs claimed on Wellmark's FACP's and found:

<b>PENSION COST CLAIMED VARIANCE</b>			
<b>FISCAL YEAR</b>	<b>PER WELLMARK</b>	<b>PER OIG</b>	<b>DIFFERENCE</b>
1992	\$0	\$0	\$0
1993	220,241	29,615	190,626
1994	297,336	132,203	165,133
1995	<sup>1</sup> 307,547	4,899	302,648
1996	333,011	530,969	(197,958)
1997	528,662	788,919	(260,257)
1998	656,391	721,993	(65,602)
1999	601,699	329,410	272,289
2000	329,044	188,870	140,174
	<u>\$3,273,931</u>	<u>\$2,726,878</u>	<u>\$547,053</u>

## EFFECT

For FYs 1992 through 2000, Wellmark claimed pension costs of \$3,273,931 for Medicare reimbursement. However, the allowable CAS pension costs were \$2,726,878. As a result, Wellmark claimed \$547,053 in excess of the allowable CAS pension costs.

## RECOMMENDATION

We recommend that Wellmark remit \$547,053 to the Federal Government for unallowable pension costs that were claimed for Medicare reimbursement.

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<sup>1</sup> On the FACP for FY95 Wellmark claimed \$318,916. In their response to our draft report, Wellmark provided evidence that they reimbursed \$11,369 to CMS for an overcharge for FY95 that was identified through Administrative Cost Audit A-07-99-01287. We acknowledge the payment and adjusted the amount claimed accordingly.

**Auditee's Comments**

Wellmark disagreed with our report. Wellmark's assertions and opinions are summarized in the following paragraphs and presented in its entirety on Appendix B. Wellmark did not specifically address our recommendation. Instead, they believe that the application of prior unclaimed administrative costs (approximately \$1.8 million) offsets our recommendation. Wellmark stated:

*“Wellmark disputes the OIG’s proposed adjustment of \$1,357,036 in several respects. First, a previous payment in the amount of \$11,369 was not reflected in the draft report. Second, pension expense for the fiscal years 1992-2000, which the OIG asserts is unallowable due to the adjustment of asset values, was more than offset by the over \$1.8 million in unclaimed costs that Wellmark incurred in the administration of the Medicare Program. Our view is that any reopening of the FACPs to account for the OIG’s pension findings should also be reopened to allow for the payment of Wellmark’s otherwise allowable administrative costs that were not previously reimbursed by the government.”*

**OIG Response**

While on site, we were not informed that Wellmark had previously paid \$11,369 to the government for an overstatement of costs on the 1995 FACP. We acknowledge the payment of these costs and our audit report has been adjusted accordingly.

Wellmark's comments regarding the application of prior unclaimed administrative costs are not directly related to our recommendation. In Wellmark's closing agreements with CMS, a clause specifically closes all administrative costs and allows for pension costs to remain open until audited. Therefore, our recommendation does not require the “reopening” of the FACPs.

**INSTRUCTIONS FOR AUDITEE RESPONSE**

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.



In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the worldwide web at <http://oig.hhs.gov/>.

Sincerely,

A handwritten signature in black ink, appearing to read "James P. Aasmundstad".

James P. Aasmundstad  
Regional Inspector General  
for Audit Services, Region VII

Enclosures

**HHS Action Official:**

Mr. Joe Tilghman  
Regional Administrator, Region VII  
Richard Bolling Federal Building  
Room 235  
601 East 12th Street  
Kansas City, Missouri 64106

## WELLMARK INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2000

Date	Description	Total Company	Other Segments	Medicare Segment
1991	Contribution(s)	<u>1/</u> \$0	\$0	\$0
9.00%	Discount for Interest	<u>2/</u> 0	0	0
1/1/91	Pres Val Contributions	<u>3/</u> 0	0	0
1/1/91	Prepayment Credit	<u>4/</u> 0	0	0
1/1/91	Pres Value of Funding	<u>5/</u> 0	0	0
1/1/91	CAS Pension Cost	<u>6/</u> 646,968	547,978	98,990
1/1/91	CAS Funding Target	<u>7/</u> 646,968	547,978	98,990
1/1/91	% Funded	<u>8/</u>	0.00%	0.00%
1/1/91	Funded Pension Cost	<u>9/</u>	0	0
	Allowable Interest	<u>10/</u>	0	0
	Allocable Pension Cost	<u>11/</u>	0	0
	Fiscal Year Pension	<u>12/</u>	0	0
	Medicare LOB%	<u>13/</u>	0.00%	0.00%
	Allowable Pension Cost	<u>14/</u> \$0	\$0	\$0

1992	Contribution(s)	\$0	\$0	\$0
9.00	Discount for Interest	0	0	0
1/1/92	Pres Val Contributions	0	0	0
1/1/92	Prepayment Credit	0	0	0
1/1/92	Pres Value of Funding	0	0	0
1/1/92	CAS Pension Cost	0	0	0
1/1/92	CAS Funding Target	0	0	0
1/1/92	% Funded		0.00%	0.00%
1/1/92	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension		0	0
	Medicare LOB%		4.020%	92.157%
	Allowable Pension Cost	\$0	\$0	\$0

## WELLMARK INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2000

Date	Description	Total Company	Other Segments	Medicare Segment
1993	Contribution(s)	\$2,522,754	\$2,522,754	\$0
8.50%	Discount for Interest	(151,784)	(151,784)	0
1/1/93	Pres Val Contributions	2,370,970	2,370,970	0
1/1/93	Prepayment Credit	0	0	0
1/1/93	Pres Value of Funding	2,370,970	2,370,970	0
1/1/93	CAS Pension Cost	418,526	418,526	0
1/1/93	CAS Funding Target	418,526	418,526	0
1/1/93	% Funded		100.00%	0.00%
1/1/93	Funded Pension Cost		418,526	0
	Allowable Interest		25,199	0
	Allocable Pension Cost		443,725	0
	Fiscal Year Pension		332,794	0
	Medicare LOB%		8.899%	94.718%
	Allowable Pension Cost	\$29,615	\$29,615	\$0

1994	Contribution(s)	\$2,834,100	\$2,834,100	\$0
8.00%	Discount for Interest	(141,348)	(141,348)	(0)
1/1/94	Pres Val Contributions	2,692,752	2,692,752	0
1/1/94	Prepayment Credit	2,118,402	2,118,402	0
1/1/94	Pres Value of Funding	4,811,154	4,811,154	0
1/1/94	CAS Pension Cost	2,180,157	2,180,157	0
1/1/94	CAS Funding Target	2,180,157	2,180,157	0
1/1/94	% Funded		100.00%	0.00%
1/1/94	Funded Pension Cost		2,180,157	0
	Allowable Interest		3,242	0
	Allocable Pension Cost		2,183,399	0
	Fiscal Year Pension		1,748,481	0
	Medicare LOB%		7.561%	95.775%
	Allowable Pension Cost	\$132,203	\$132,203	\$0

## WELLMARK INC.

## STATEMENT OF ALLOWABLE CAS PENSION COSTS

## FOR FISCAL YEARS 1992 THROUGH 2000

Date	Description	Total Company	Other Segments	Medicare Segment
1995	Contribution(s)	\$3,692,418	\$3,692,418	\$0
8.50%	Discount for Interest	(213,422)	(213,422)	(0)
1/1/95	Pres Val Contributions	3,478,996	3,478,996	0
1/1/95	Prepayment Credit	0	0	0
1/1/95	Pres Value of Funding	3,478,996	3,478,996	0
1/1/95	CAS Pension Cost	0	0	0
1/1/95	CAS Funding Target	0	0	0
1/1/95	% Funded		0.00%	0.00%
1/1/95	Funded Pension Cost		0	0
	Allowable Interest		0	0
	Allocable Pension Cost		0	0
	Fiscal Year Pension		57,262	0
	Medicare LOB%		8.556%	99.870%
	Allowable Pension Cost	\$4,899	\$4,899	\$0
1996	Contribution(s)	\$3,413,612	\$3,413,612	\$0
8.50%	Discount for Interest	(256,007)	(256,007)	(0)
1/1/96	Pres Val Contributions	3,157,605	3,157,605	0
1/1/96	Prepayment Credit	3,790,604	3,276,997	513,607
1/1/96	Pres Value of Funding	6,948,209	6,434,602	513,607
1/1/96	CAS Pension Cost	3,790,604	3,276,997	513,607
1/1/96	CAS Funding Target	3,790,604	3,276,997	513,607
1/1/96	% Funded		100.00%	100.00%
1/1/96	Funded Pension Cost		3,276,997	513,607
	Allowable Interest		0	0
	Allocable Pension Cost		3,276,997	513,607
	Fiscal Year Pension		2,457,748	385,205
	Medicare LOB%		5.938%	99.954%
	Allowable Pension Cost	\$530,969	\$145,941	\$385,028

## WELLMARK INC.

**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
**FOR FISCAL YEARS 1992 THROUGH 2000**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
1997	Contribution(s)	\$2,716,903	\$2,716,903	\$0
8.50%	Discount for Interest	(212,845)	(212,845)	(0)
1/1/97	Pres Val Contributions	2,504,058	2,504,058	0
1/1/97	Prepayment Credit	4,043,203	3,530,629	512,574
1/1/97	Pres Value of Funding	6,547,261	6,034,687	512,574
1/1/97	CAS Pension Cost	4,043,203	3,530,629	512,574
1/1/97	CAS Funding Target	4,043,203	3,530,629	512,574
1/1/97	% Funded		100.00%	100.00%
1/1/97	Funded Pension Cost		3,530,629	512,574
	Allowable Interest		0	0
	Allocable Pension Cost		3,530,629	512,574
	Fiscal Year Pension		3,467,221	512,832
	Medicare LOB%		7.965%	99.985%
	Allowable Pension Cost	<u>\$788,919</u>	<u>\$276,164</u>	<u>\$512,755</u>

1998	Contribution(s)	\$2,158,251	\$2,158,251	\$0
9.00%	Discount for Interest	(178,062)	(178,062)	(0)
1/1/98	Pres Val Contributions	1,980,189	1,980,189	0
1/1/98	Prepayment Credit	3,671,111	3,192,735	478,376
1/1/98	Pres Value of Funding	5,651,300	5,172,924	478,376
1/1/98	CAS Pension Cost	3,671,111	3,192,735	478,376
1/1/98	CAS Funding Target	3,671,111	3,192,735	478,376
1/1/98	% Funded		100.00%	100.00%
1/1/98	Funded Pension Cost		3,192,735	478,376
	Allowable Interest		0	0
	Allocable Pension Cost		3,192,735	478,376
	Fiscal Year Pension		3,277,209	486,926
	Medicare LOB%		7.201%	99.810%
	Allowable Pension Cost	<u>\$721,993</u>	<u>\$235,992</u>	<u>\$486,001</u>

## WELLMARK INC.

**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
**FOR FISCAL YEARS 1992 THROUGH 2000**

<b>Date</b>	<b>Description</b>	<b>Total Company</b>	<b>Other Segments</b>	<b>Medicare Segment</b>
1999	Contribution(s)	\$1,050,000	\$1,050,000	\$0
9.00%	Discount for Interest	(86,697)	(86,697)	(0)
1/1/99	Pres Val Contributions	963,303	963,303	0
1/1/99	Prepayment Credit	3,410,512	3,311,675	98,837
1/1/99	Pres Value of Funding	4,373,815	4,274,978	98,837
1/1/99	CAS Pension Cost	3,410,512	3,311,675	98,837
1/1/99	CAS Funding Target	3,410,512	3,311,675	98,837
1/1/99	% Funded		100.00%	100.00%
1/1/99	Funded Pension Cost		3,311,675	98,837
	Allowable Interest		0	0
	Allocable Pension Cost		3,311,675	98,837
	Fiscal Year Pension		3,281,940	193,722
	Medicare LOB%		4.173%	99.346%
	Allowable Pension Cost	\$329,410	\$136,955	\$192,455
2000	Contribution(s)	\$0	\$0	\$0
9.00%	Discount for Interest	(0)	(0)	(0)
	Pres Val Contributions	0	0	0
1/1/00	Prepayment Credit	1,435,340	1,344,132	91,208
1/1/00	Pres Value of Funding	1,435,340	1,344,132	91,208
1/1/00	CAS Pension Cost	1,435,340	1,344,132	91,208
1/1/00	CAS Funding Target	1,435,340	1,344,132	91,208
1/1/00	% Funded		100.00%	100.00%
1/1/00	Funded Pension Cost		1,344,132	91,208
	Allowable Interest		0	0
	Allocable Pension Cost		1,344,132	91,208
	Fiscal Year Pension		1,836,018	93,115
	Medicare LOB%		5.223%	99.850%
	Allowable Pension Cost	\$188,870	\$95,895	\$92,975

**WELLMARK INC.****STATEMENT OF ALLOWABLE CAS PENSION COSTS  
FOR FISCAL YEARS 1992 THROUGH 2000****FOOTNOTES**

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 Reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rate, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.

**WELLMARK INC.****STATEMENT OF ALLOWABLE CAS PENSION COSTS  
FOR FISCAL YEARS 1992 THROUGH 2000**

- 10/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth (1/4) of the prior year's costs plus three-fourths (3/4) of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 13/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Wellmark.
- 14/ We computed the allowable Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.



Wellmark, Inc.  
636 Grand Avenue  
Des Moines, Iowa 50309-2565

February 11, 2003

**Via UPS Overnight**

James P. Aasmundstad  
Regional Inspector General  
Audit Services, Region VII  
601 E. 12<sup>th</sup> Street, Room 684A  
Kansas City, MO 64106

Re: CIN: A-07-02-03022  
CIN: A-07-02-03029  
CIN: A-07-02-03035

Dear Mr. Aasmundstad:

This is in response to the three draft audit reports referenced above, which were conducted by the Department of Health and Human Services Office of Inspector General. These reports covered topics related to pension assets and expenses for the Company's Medicare Operations, prior to Wellmark's exit from the program on May 31, 2000, and to the costs of post retirement benefits.

Wellmark has several responses to the audit reports that it wishes the OIG to consider. Specifically, based on our review, there are several facts that we would like to make note of:

- The amount identified in the audit findings of \$1,357,036 includes the amount of pension expenses or pension costs claimed for Medicare reimbursement for the fiscal years 1992-2000 (\$558,422), which is the subject of the report for CIN: A-07-02-03029. Additionally, in a prior audit for fiscal year 1995, there was an audit finding that pension costs were overstated by Wellmark in the amount of \$11,369. Wellmark paid this amount to the government but the FACP was not adjusted for fiscal year 1995. This amount is not reflected in the findings in the current report. Attached as Exhibit A, please find a copy of the audit finding and the schedule from the Closing Agreement showing the payment. Thus, the total amount allegedly owed is \$1,345,667.
- During the same period, and as outlined below, Wellmark had unclaimed allowable costs in excess of \$1.8 million. If the FACP's are to be reopened as the OIG suggests to make the pension adjustments, then the cost reports should be equally reopened to enable Wellmark to submit unclaimed allowable costs that were not reimbursed as a result of CMS' Bottom Line Unit Costs ("BLUC") limitations. These unclaimed costs are for administrative costs incurred by Wellmark in performance of its Medicare Part A and B Contracts.

These costs are specifically outlined in OIG reports: CIN: A-07-99-01287, CIN: A-07-94-00787, and CIN: A-07-94-00786. For the fiscal years in question, Wellmark (formerly known as IASD Health Services Corp.) had the unclaimed costs listed below:

**Medicare Part A:**

<b>Fiscal Year</b>	<b>Incurred Costs</b>	<b>Reported Costs</b>	<b>Unclaimed Costs</b>
1992	\$12,986,401	\$12,945,726	\$40,675
1993	\$13,800,001	\$13,747,456	\$52,545
1994	\$13,569,679	\$13,569,679	\$0
1995	\$15,249,044	\$15,249,044	\$0
1996	\$15,068,255	\$15,068,255	\$0
1997	\$18,371,805	\$18,254,519	\$117,286
1998	\$27,197,208	\$27,197,208	\$0
1999	\$27,644,322	\$27,644,322	\$0
2000 (Partial Year)	\$21,178,428	\$21,178,428	\$0
<b>Total Part A</b>	<b>\$165,065,143</b>	<b>\$164,854,637</b>	<b>\$210,506</b>

**Medicare Part B:**

<b>Fiscal Year</b>	<b>Incurred Costs</b>	<b>Reported Costs</b>	<b>Unclaimed Costs</b>
1992	\$13,006,825	\$12,133,335	\$873,490
1993	\$12,525,637	\$11,976,478	\$549,159
1994	\$11,001,125	\$11,001,125	\$0
1995	\$10,828,564	\$10,643,132	\$185,432
1996	\$9,936,947	\$9,936,947	\$0
1997	\$9,360,313	\$9,330,148	\$30,165
1998	\$8,833,570	\$8,833,570	\$0
<b>Total Part B</b>	<b>\$75,492,981</b>	<b>\$73,854,735</b>	<b>\$1,638,246</b>

**Summary of Medicare Part A & B Unclaimed Allowable Cost History:**

	<b>Med A</b>	<b>Med B</b>	<b>Totals</b>
1992 - 2000	\$210,506	\$1,638,246	\$1,848,752

As you can see, for fiscal years 1992 through the termination of Wellmark's Medicare contract, Wellmark's unclaimed costs for administration of the Medicare Program totaled \$1,848,752. If the reopening of these years is required, this cost more than offsets any claim that costs were overstated.

- In the pension audits, the OIG noted that Wellmark failed to act upon a prior recommendation contained in OIG's previous segmentation report (CIN: A-07-

94-00744), which was to increase pension assets by \$1,629,382. Initially Wellmark disagreed with the auditor's findings and had engaged in discussions with HCFA regarding this matter. Ultimately, Wellmark acquiesced in the finding and concurred with the finding of the report. Attached, as Exhibit B is a copy of the letter to Mr. Joe Tilghman who was acting Regional Administrator of HCFA at the time to that effect. A copy of this communication was provided to the staff at the Blue Cross Blue Shield Association responsible for plan administration of the pension plan in which Wellmark participates. Apparently, this transfer was inadvertently not completed by the plan administrator, but Wellmark did not detect this oversight until the exit conference with the OIG in early 2002.

Summary

Wellmark disputes the OIG's proposed adjustment of \$1,357,036 in several respects. First, a previous payment in the amount of \$11,369 was not reflected in the draft report. Second, pension expense for the fiscal years 1992-2000, which the OIG asserts is unallowable due to the adjustment of asset values, was more than offset by the over \$1.8 million in unclaimed costs that Wellmark incurred in the administration of the Medicare Program. Our view is that any reopening of the FACPs to account for the OIG's pension findings should also be reopened to allow for the payment of Wellmark's otherwise allowable administrative costs that were not previously reimbursed by the government.

We look forward to the opportunity to discuss the issues raised in all the reports further.

Sincerely,



Brian Lester Smith  
Counsel

BLS/clh  
Enclosures

## **Exhibit A**

## PENSION COSTS

The Auditee did not adjust pension costs claimed in FY 1995 to agree with the Actuary's recommended Medicare segment costs. As a result, pension costs were overstated by \$20,194 in FY 1995.

During calendar years 1994 and 1995, the Auditee funded pensions and the Medicare segment in the following amounts:

<u>Calendar Year</u>	<u>1994</u>	<u>1995</u>	<u>Medicare Segment FY 1995</u>
Total Funding	<u>\$2,609,600</u>	<u>\$2,450,806</u>	
Medicare Segment Per Actuary	\$284,956	\$227,828	
<u>Fiscal Year 1995</u>			
Percent of Medicare Segment	<u>25%</u>	<u>75%</u>	
FY 1995 Amount	<u>\$71,239</u>	<u>\$170,871</u>	\$242,110
Medicare Segment --			
Pension Cost Claimed			<u>262,304</u>
Excess Amount Claimed			<u>\$20,194</u>
Distribution of Excess Amount:			
	<u>PART A</u>	<u>PART B</u>	<u>TOTAL</u>
FY 1995	<u>\$11,369</u>	<u>\$8,825</u>	<u>\$20,194</u>

According to Auditee officials the Medicare Segment for 1995 was funded and claimed at the 1994 level. However, the 1995 Medicare segment required less funding and no adjustment was made to reduce amounts claimed.

## Recommendation

We recommend that:

1. The Auditee establish the necessary procedures to ensure that the proper pension costs are claimed on Medicare.
2. The overstated pension costs of \$20,194 be set aside for further review and resolution by HCFA.

PART A  
\$11,369

PART B  
\$8,825

### Auditee Response

Auditee officials concur with our findings and recommendation. However, they requested that we show the pension differences for all fiscal years covered in the audit. This would reflect not only the overcharge for 1995 but also the undercharges for other years. The net effect would be an undercharge for the five years.

### Auditor Comment

We agree that there would be a net undercharge if overcharges and undercharges were netted for all periods. However, costs are claimed by fiscal year on the FACP and will not be offset against another fiscal year costs. Also the Auditee had not claimed the additional pension expenses for 1996 and as a result the undercharge occurred. Therefore, we could not consider that amount unless claimed.

### RECRUITMENT COSTS

Medicare was allocated \$8,114 in Miscellaneous Incentive costs in fiscal year 1998 that represented a sign-on bonus paid to the new Senior Vice President – Human Resources. We were unable to determine whether the sign-on bonus was reasonable.

The Auditee recruited an individual in November 1997 to fill its executive position of Senior Vice President – Human Resources (SVP-HR). That individual recovered a starting annual salary of \$150,000 plus a sign-on bonus of \$40,000. The starting salary paid to the SVP-HR appears reasonable as compared to salaries paid other Senior Vice Presidents at Wellmark, Inc. However, we were unable to determine whether the \$8,114 of sign-on bonus allocated to Medicare was reasonable and allowable.

The 48 CFR 31.201-3 provides that reasonableness depends upon a variety of considerations and circumstances including:

- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;*

*...and*

- (4) Any significant deviations from the contractor's established practices.*

We were unable to determine whether the bonus is generally recognized as an ordinary and necessary cost for the contract performance. Further, there was no document provided to show that offering a sign-on bonus was the contractors established practice.

SUMMARY OF MEDICARE ADMINISTRATIVE COSTS  
WELLMARK, INC.  
AUDIT REVIEW PERIOD OCTOBER 1, 1993 THRU SEPTEMBER 30, 1998

Office of Inspector General Audit Report CIN A-07-99-01287

<u>PERIOD</u>	<u>AMOUNT CLAIMED</u>	<u>AMOUNT QUESTIONED</u>	<u>EXCEPTIONS SUSTAINED</u>	<u>OTHER * ADJ</u>	<u>TOTAL AMOUNT ALLOWED</u>	<u>AMOUNT PAID CONTRACTOR</u>	<u>NET AMOUNT DUE CMS/ (CONTRACTOR)</u>
1994	\$ 13,569,679	\$ 14,172	\$ -	\$ -	\$ 13,569,679	\$ 13,569,679	\$ -
1995	15,249,044	30,538	11,369	-	15,237,675	15,249,044	11,369
1996	15,068,255	8,429	-	-	15,068,255	15,068,255	-
1997	18,254,519	3,993	507	507	18,254,519	18,254,519	-
1998	29,625,928	28,568	27,807	-	29,598,121	29,625,928	27,807
<b>Total</b>	<b>\$ 91,767,425</b>	<b>\$ 85,700</b>	<b>\$ 39,683</b>	<b>\$ 507</b>	<b>\$ 91,728,249</b>	<b>\$ 91,767,425</b>	<b>\$ 39,176</b>

\* Offset of Unclaimed Costs

INVOICE DATE	INVOICE NUMBER	GROSS AMOUNT	DISCOUNT AMOUNT	NET AMOUNT
03-14-2002	REFUND MED PART A COST	39,176.00		39,176.00
TOTAL		39,176.00		39,176.00

DETACH HERE

AY \*\*\*\*\*NON NEGOTIABLE FILE COPY\*\*\*\*\*

THE  
ORDER OF  
**Centers for Medicare & Medicaid Services- CMS**  
**Office of Financial Management**  
**Div. of Acctg, Admin. Pymt. Branch**  
**PO Box 7520**  
**Baltimore, MD 21207**

WARNING: THIS CHECK MUST HAVE A MACHINE IMPRINTED SIGNATURE  
VOID AFTER 90 DAYS



## **Exhibit B**

June 6, 1994

Mr. Joe L. Tilghman  
Acting Regional Administrator, HCFA  
Room 235, Federal Office Building  
601 East 12th Street  
Kansas City, MO 64106

Re: Audit CIN: A-07-94-00744

Dear Mr. Tilghman:

We acknowledge receipt of the final audit report on the OIG Review of Pension Segmentation.

We concur with the findings of the report and will implement the recommendations noted.

A copy of the report along with this letter will be sent to NEBA, the plan administrator, and the appropriate adjustments will be made.

Sincerely,

Sally T. Wood  
Vice President, Government Programs

/mg

cc: Roger Perryn, HCFA  
Steve Ford, HCFA

Bob Rhodes ✓  
Blue Cross and Blue Shield Association  
676 North St. Clair Street  
Chicago, IL 60611

Vincent R. Imbriani  
Regional Inspector General for Audit Services  
Region VII  
Room 284A, Federal Office Building  
601 East 12th Street  
Kansas City, MO 64106

**Moklestad, Timothy N**

---

**From:** Navin, Carol [carol.navin@BCBSA.com]  
**Sent:** Tuesday, September 24, 2002 4:45 PM  
**To:** Moklestad, Timothy N  
**Cc:** Barberio, George; 'Pinkerton, Jay – CCA'; Manuszak, David  
**Subject:** FW: Medicare Pension Segment Audits

Tim, finally, here are responses to questions from Carl Voss at Watson Wyatt (Watson Wyatt Worldwide, or WWW). As I said before, the "transfer" (adjustment) was never made.

We need to see what needs to be done going forward. I will advise Jay Pinkerton and company at CCA so we can discuss at some point.

Some of the questions are unanswered -- #3 (must be answered by the OIG) and # 6 (I do not believe that we were actuaries for western IA or SD).

Also, in answer to #1, no, you weren't required to provide an additional request or document re the transfer of assets -- there was no formal process for doing this.

Also, remember that when we talk about "transfer of assets", I believe we are talking about paper adjustments of amounts (not any actual transfer of funds). I know you know this, but just in case this is read by others.....

Please let me know if you have other questions. I am truly sorry this has taken so long. Thanks for your patience.

Carol

-----Original Message-----

**From:** Voss, Carl (Chicago) [mailto:Carl.Voss@WatsonWyatt.com]  
**Sent:** Friday, September 20, 2002 4:58 PM  
**To:** 'Navin, Carol'  
**Subject:** RE: Medicare Pension Segment Audits

See my responses to #2, #4, and #5 below.

-----Original Message-----

**From:** Navin, Carol [mailto:carol.navin@BCBSA.com]  
**Sent:** September 18, 2002 3:00 PM  
**To:** 'Voss, Carl -- Wyatt'  
**Subject:** FW: Medicare Pension Segment Audits

-----Original Message-----

**From:** Navin, Carol  
**Sent:** Thursday, September 12, 2002 10:53 AM  
**To:** 'Voss, Carl -- Wyatt'  
**Subject:** FW: Medicare Pension Segment Audits

Carl, this is what I was calling about. Tim asked me again about it - I think it's something that needs to be answered by you, but maybe CCA could answer?

1/31/2003

Thanks ---  
Carol

-----Original Message-----

**From:** Navin, Carol  
**Sent:** Tuesday, June 18, 2002 9:46 AM  
**To:** 'Voss, Carl -- Wyatt'  
**Subject:** FW: Medicare Pension Segment Audits

Carl, re the Wellmark OIG audit. Some of Tim's questions, I believe, need to be answered by you - can you look at his questions #2, #4 and #5 below and let me know your reaction? Thanks.

Carol Daskais Navin  
Manager, Actuarial Reporting and Systems  
National Employee Benefits Administration  
Blue Cross Blue Shield Association  
225 North Michigan Avenue, Chicago IL 60601  
Phone: 312.297.6114  
Fax: 312.297.6454  
Email: [carol.navin@bcbsa.com](mailto:carol.navin@bcbsa.com)

-----Original Message-----

**From:** Moklestad, Timothy N [<mailto:moklestadtn@wellmark.com>]  
**Sent:** Thursday, June 13, 2002 10:05 AM  
**To:** [carol.navin@BCBSA.com](mailto:carol.navin@BCBSA.com)  
**Cc:** Murphy, Angela J  
**Subject:** Medicare Pension Segment Audits

After reviewing the history of events following the Medicare Pension segment audits for the period 1986 to 1992 I had a few questions.

Questions 1 & 2 relate to the Final 1994 OIG Report on the IASD segment, CIN # A-07-94-00744. On June 6<sup>th</sup>, 1994 Sally Wood sent a letter to Joe Tighman, Acting Regional Administrator HCFA, including a copy to Bob Rhoades of the BCBS Assoc. The letter said that a copy of the report along with this letter will be sent to NEBA, the plan administrator, and the appropriate adjustments will be made. We have a couple questions related to this:

1. Were we required to send an additional request or document concerning the transfer of the assets?
2. Are we certain that the funds were not transferred? I've been asked this question a few more times so I said that I would ask one more time.

WWW response. We have gone back to the work papers and the adjustments to the asset allocation requested by the auditors in the final 1994 report were never made. There was a internal communication breakdown between the actuary (me) and the people actually doing the segment accounting work.

Question # 3 relates to Final 1994 OIG Report on unfunded pension costs of IASD, CIN # A-07-94-00745

3. Will the OIG auditors automatically include the reassignment of \$574,804 unfunded pension costs in

# ACKNOWLEDGMENTS

**AUDIT REPORT NUMBER: A-07-02-03029**  
**WELLMARK INC.**

This report was prepared under the direction of James P. Aasmundstad, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Greg Tambke, *Audit Manager*  
Scott Englund, *Senior Auditor*  
Tricia Hankins, *Auditor*  
Dave Imhoff, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.